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OPEC Countries

OPEC: HAMMERING OUT THE OIL PRICE RISE

Recent adjustments in negotiating positions now lead us to believe that OPEC members will agree on an oil price increase of 10% to 15% - roughly \$1 to \$1.50 per barrel - for fourth quarter 1975. The two leading cartel states - Iran and Saudi Arabia - were seriously divided on the issue last week, but each has since begun to compromise. We believe that a solution will be worked out by 24 September, when the OPEC Conference begins its deliberations in Vienna.

Iranian Minister Amouzegar apparently has found that while most OPEC countries share Iran's desire for a price rise, few cartel members are willing to go as high as the 15% to 20% range advocated by the Shah. Venezuela favors an increase on the order of 10% to 15%, similar to its position at the June OPEC meeting in Gabon; Kuwaiti Oil Minister Kazemi indicated that his country will support a 10% increase. Only Algeria, among the more influential OPEC states, is believed willing to push for a higher price hike.

We think the Shah will accede to pressures for a more moderate increase and probably is willing to accept an immediate price rise of about 10% to 15%. If OPEC chooses a figure in the lower end of the range, he almost certainly will press for an additional increase at the beginning of next year.

At the other extreme, Saudi Arabia in recent weeks had taken a sudden hard line in opposition to any price hike this year. Riyadh was ostensibly concerned over the impact of higher oil prices on (a) industrial recovery in consuming countries and (b) the volume of OPEC and Saudi oil exports. The Saudis also could have been motivated by international political factors such as the current Sinai settlement. We cannot ascertain to what degree their unexpected intransigence may have been a ploy to hold down the size of the eventual increase. In any case, we believe the Saudis will have few qualms over accepting a 5% to 10% increase in the fourth quarter and may also accede to an additional price rise early next year.

Riyadh has strong bargaining power, if it decides to hold the line. It can bring almost 3 million b/d in unused productive capacity into service, which would force the remainder of the cartel to cut production 1 to 2 million b/d in the fourth quarter. But like last year when Riyadh called off an oil auction that would have lowered the price of oil, the Saudis are unlikely to risk political isolation and a breakup of OPEC. (Secret No Foreign Dissem) ■

*Also read
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